

## People of Color and the Challenge of Retirement Security

### Inequities Cast a Shadow

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UNYIELDING DISPARITIES IN WELL BEING between older people of color and older whites continue to cast a shadow on the brightening economic picture of older Americans overall.

Policy analysts and advocates point to a number of converging indicators which threaten the retirement security of people of color: low wages, intermittent work histories, family responsibilities, inadequate pension coverage, poor financial literacy, and discrimination.

The median income of black elders, for instance, which was 70% of their white counterparts in 1967, has since fallen to less than 60% of whites; poverty rates among black and Hispanic elders are today 2.5 times those of whites. When gender is factored in, the disparities become greater yet, perhaps the most dramatic being that the poverty rate of “old-old” black women (aged 75 and above) is virtually ten times that of “young-old” (65–74) white men.

In this respect, older people of color, especially women, find their work/retirement experiences painfully and often diametrically opposite those of many whites, most notably

white men who, as a whole, are better off. Because these men have historically enjoyed more generous pension benefits, they are better able to choose voluntarily whether to work longer or to retire.

Working people of color, on the other hand, are more likely to be forced out of the labor market due to an inability to secure or maintain employment. Yet at the same time, they are also less able to retire because of a lack of adequate savings or pension income. The financial fear often heard, “I can’t work, but I can’t retire either,” captures the dilemma.

Social Security, pensions, and personal retirement savings will have a profound effect on how well the baby boom generation of retiring individuals will fare in old age, but unfortunately, all too many today do not have these advantages. The rising retirement tide is not raising levels of well being among all retirees, and it is imperative that we better understand who is being left behind and why.

Policies are needed which are sensitive to the retirement security needs of working people of color. This research brief, from the National Academy on an Aging Society of The Gerontological Society of America, addresses these concerns. Specifically, it focuses attention on concrete policy steps that can be taken to improve the retirement prospects for all workers in America.

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## Raising Retirement Age Weakens Safety Net

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FINANCIAL PRESSURES ON Social Security and private pensions have stimulated recent policy changes to encourage working longer. However, these policies, most notably raising eligibility from 65 to 67, do not take into account differences across groups in work histories, health, and employment.

In contemplating policy changes that entice workers to retire, policy makers need to be aware that they may be weakening the safety net for many who exit the labor market via involuntary pathways, such as disability and unemployment.

Numerous studies (based on middle class white men) have shown the influence of “pull” factors, such as pensions and Social Security, on retirement decisions. However, for minority workers, “push” factors, such as diminishing job opportunities and poor health in later years, are crucial determinants of labor force withdrawal. Once unemployed, people of color are more likely than whites to exit the labor force altogether through pathways other than retirement.

National policy must recognize this reality.

### Involuntary Retirement “Pushes”

In the workplace, older minority workers are subject to a variety of labor market pushes, yet race still emerges as a critical independent factor. Major push factors include:

- **Marital status** Unmarried men are significantly less likely to be employed than their married counterparts, and to experience higher rates of both unemployment and non-participation. Single women, by contrast, have higher labor force participation than do married women. Specifically, divorced women are less likely than married women to be retired and, along with widows, are less likely to be out of the labor force.
- **Poor health** Failing health often gives rise to early retirement for those older workers who are better off, while hastening unemployment or labor market withdrawal for those who are less well off.
- **Unstable work history** Mature workers with unstable work histories are simultaneously more vulnerable to premature withdrawal (presumably with minimal benefits) and less able to depart through retirement (presumably with benefits).
- **Lack of pension** Pensioned older workers are more likely to be retired than their unpensioned counterparts, and women who work in jobs offering retirement benefits are less likely than other workers to withdraw from the labor force during their working years.
- **Race** Even when accounting for other factors, race continues to exert a significant influence on older worker employment patterns, with noteworthy differences by sex. Blacks, Hispanics, and older women experience more involuntary job separation in the years leading up to retirement than do white men.

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### How Should Public Policy Respond?

To the extent that workers of color are more likely to leave the labor force via involuntary pathways, policies that lengthen work requirements for retirement benefits will have a detrimental effect on minority old-age security.

Hispanic workers, who are currently younger overall, are likely to face mounting difficulties as greater numbers reach pre-retirement ages. Because Hispanics have very low education levels on average, their market prospects at advanced ages remain particularly bleak; as this rapidly growing population ages, this issue will become an important policy concern.

Policy solutions must recognize the potentially adverse consequences of job loss on the economic well being of mature low-skill and minority workers for whom the labor market often represents an inhospitable environment.

— From “**Workers of Color and Pathways to Retirement,**” *Public Policy and Aging Report*, Spring 2002. For further information, contact the first author at [chenoa@soc.duke.edu](mailto:chenoa@soc.duke.edu).

## Minority Preparation for Retirement Saving

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IN RECENT YEARS, there has been a significant interest in how financially prepared Americans are for retirement. The *2001 Minority Retirement Confidence Survey* by the Employee Benefit Research Institute (EBRI) offers a glimpse into the retirement outlook for working people of color. Survey data show that African Americans and Hispanics are less likely than other workers to have saved for retirement, but nearly half have done so.

### Key Findings from the 2001 Survey

	Expected Retirement Age	Currently Saving	Have Calculated Retirement Needs
African American	64	49%	32%
Hispanic	63	44%	32%
Asian American	65	64%	48%

- Among Hispanics, older, less educated, lower income, and foreign-born workers were less likely to report having saved money for retirement.
- About half of all workers – including some in every ethnic group – had a retirement savings plan such as a 401(k) offered as part of their employee benefit package.
- Asian Americans reported higher rates of savings than African Americans and Hispanic Americans and were somewhat more likely to take advantage of a

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retirement savings plan offered by employers.

- African American and Hispanic American workers were less likely to have an employer contribute to a retirement account in their name or their spouse's name last year.
- Compared with Asian Americans and workers overall, African Americans and Hispanic Americans were less likely to say that they or their spouse have tried to calculate how much they need to save for a comfortable retirement.
- Roughly 70% of respondents in all three groups expected that employment would provide a source of retirement income, and minority respondents were more likely to expect retirement income support from children than were workers overall.



— From “**The 2001 Minority Retirement Confidence Survey: Minority Attitudes and Behaviors Toward Retirement,**” *Public Policy and Aging Report*, Spring 2002. For further information, contact the author at [rajnes@ebri.org](mailto:rajnes@ebri.org).

## Investing for Retirement: Low-Income Workers' Dilemma

Judith G. Gonyea, *Boston University*

AS AMERICA'S BUSINESSES shift away from traditional defined-benefit pensions to defined-contribution accounts (e.g., 401(k) plans), workers are increasingly being sent the message that they must do a better job saving for retirement.

Making savings decisions can be complicated for even the most experienced investor. Added to that is the uncertainty of Social Security and the worry that comes with not being able to put aside even small amounts of money for the future.

A Boston University study of low-wage health care workers at a large urban medical center underscores the impacts of labor market disadvantage on retirement savings. The study revealed that low-wage workers in many cases had trouble meeting their household expenses, lived in substandard housing, and at times went without food and/or medical care. While 45% had at least started to save for retirement, 55% had not. Unsure about today, most were unable to focus on their long-term financial security.

### **A Lack of Financial Knowledge Can Be Devastating**

The data show particular problems for low-income people:

- Nearly half did not know that their employer offered a 401(k) plan.

- Half felt their lack of knowledge on how to set up a retirement account was a barrier to saving.
- Less than 10% felt that their understanding of savings and investment choices was “excellent.”
- Many said that their understanding of investment basics was “poor.”
- Those who knew that their employer offered a 401(k) plan and those more knowledgeable about savings and investment options were more likely to be retirement savers.
- Consistent with other studies, Latino workers had the lowest rate of retirement saving, followed by African American employees.

### **A Matter of Learning How**

*“I felt I couldn’t contribute enough money into my 401(k) without making it hard for me to make ends meet. Something had to be sacrificed and unfortunately I sacrificed my 401(k).”*

—35-year-old African American data entry operator  
Atlanta, Georgia

TEACHING LOW-INCOME workers how to make smart financial decisions is imperative: low-income workers can least afford to make financial mistakes.

The Women’s Institute for Secure Retirement (WISER) is a national innovator in financial education for women. Working closely with local partners, WISER teaches women the importance of looking ahead. Workshop themes include managing money, credit card debt, savings, and pensions.

Retirement issues may seem far from the minds of women who struggle to make ends meet, but when attendees hear about opportunities for building assets, buying a house, or paying for education, they quickly “get it.”

WISER was established in 1996 by the Heinz Family Foundation.

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- Slightly less than half had accumulated \$10,000 or more.
- Very few (15%) felt “very confident” about their retirement preparations.

### **How Should Public Policy Respond?**

The forecast that tomorrow’s low-income elders will find less support in Social Security than is the case today suggests that pensions and personal savings will be of growing importance in the years ahead.

Such a prediction does not bode well for the women and persons of color who disproportionately fill the ranks of the low-wage service sector. These workers need better support to make wise financial decisions. Policy that encourages financial education in the workplace is crucial.

— From “**Low-Wage Service Workers and Retirement Security: The Dual Challenges of Income Adequacy and Financial Literacy**,” *Public Policy and Aging Report*, Spring 2002. For further information, contact the author at [jgonyea@bu.edu](mailto:jgonyea@bu.edu).

### **Lower Wages Limit Ability to Save**

The Boston University study confirmed that low-wage earners have an especially hard time saving for their retirement. According to the study, even among savers:

- About one quarter had set aside less than \$2,500 for retirement.

# Unreported Earnings: The Impact on People of Color and Women

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SOCIAL SECURITY benefits are determined not only by the level of wages a worker earns but also by the amount of wages actually reported by an employer. Failure to report these wages can leave workers without Social Security protection. Even those with enough reported earnings to qualify for the program are likely to receive lower monthly benefits than if all their earnings had been reported.

## Domestic and Farm Workers are Particularly Vulnerable

People of color and women make up a disproportionate share of domestic (private household) workers and farm workers, two groups of workers who may be susceptible to employers failing to report wages fully for Social Security purposes.

Without Social Security, these workers, who are much less likely to be covered by pensions, are more vulnerable to poverty in their old age than higher paid workers. Social Security coverage is vital since this program lifts more people out of poverty than all other government programs combined.

## How Should Public Policy Respond?

Research is needed to gain a greater understanding of this complex issue and its consequences for workers. Research dollars should be allocated to the Social Security

Administration to examine the following two policy questions:

- 1) **To what extent are domestic and farm workers' earnings unreported and why?**

The research should establish the number of workers affected, the level of unreported earnings, poverty rates of individuals with

**Distribution of Domestic and Farm Work Occupations, 2001**

Occupation	Percent Women	Percent Latino	Percent African American
Service Occupations	60.4	16.3	17.9
Private household	96.2	32.8	12.1
▪ Child care	97.0	18.8	8.1
▪ Cleaners/Servants	96.1	39.5	13.5
Farming, forestry, fishing	20.8	21.5	5.0
▪ Farm workers	20.7	42.3	3.7
Proportion of labor market	46.6	10.9	11.3

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 2002.

unreported earnings, and the number of employers involved. The reasons for non-reporting also should be examined. Additionally, this research should explore the extent to which workers with unreported earnings are taking advantage of provisions allowing for retroactive earnings credits.

- 2) **What proportion of domestic workers should be classified as self-employed and should pay their own payroll taxes?**

It can be complicated for workers to discern whether they are employees or self-employed. Research should assess the accuracy with which this determination is being made.

This research should examine ways to inform workers of their rights and inform employers and the self-employed of their responsibilities.

— From “Impact of Unreported Social Security Earnings on People of Color and Women,” *Public Policy and Aging Report*, Spring 2002. For further information, contact the author at [kijakazi@cbpp.org](mailto:kijakazi@cbpp.org).

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# Crediting Care Under Social Security

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FOR OVER 20 YEARS, scholars and politicians have been discussing how to update Social Security benefits for women. What has often been lost in the debate is how race and class differences among women would alter the impact of any reform.

The retreat from marriage, which has been particularly pronounced among black women, has fueled many of the calls for reform. This trend has led many scholars and activists to question a benefit system based upon a two-parent, one-earner family, which no longer represents most American families.

## Options to Update Social Security

Discussions about how to improve Social Security benefits for all women have centered on adjusting family benefits. One popular and often-cited reform that has been proposed is the introduction of care credits. Care credits would reward women's disproportionate burden for raising families.

The reform being proposed adds to women's security by moving away from marital status as a criterion and shifting women onto benefits that are contributory in nature. That is, care credits would reflect the societal value of women's unpaid care work. Overall, it appears that a care credit policy would be a more progressive way to distribute Social Security benefits.

Because the details of a policy have an enormous impact on the policy's outcomes, three policy options are explored. For all three options, most women would no longer receive retirement benefits simply for marrying but

would earn benefits based upon credits earned both while working and for their unpaid care work. Thus, this reform eliminates spousal benefits and replaces them with care credits.

Widows, however, would not have benefit cuts, but could have benefit increases if their worker benefits combined with the care credits are higher than their deceased spouses' benefits.

## Three Proposals

### Option 1: Substitute

Earnings below half of median wage are substituted with half of median wage in a person's 35 highest earnings years for up to five years for one child and up to nine years for more than one child.

For example, assuming a \$15,000 care credit, if a woman earned \$7,000, she would be credited with

an additional \$8,000 for those years. A well-paid lawyer would not receive more credit than a day care worker would. The disadvantage with this option is that those with higher earnings, who may well be balancing care responsibilities with paid work, may not benefit.

### Option 2: Drop low years

A person with one child drops five low earnings years within their 35 highest earnings years, while a person with more than one child drops a total of nine low earnings years within their highest 35 earnings years.

Dropping low earnings years would reward both women who combine work and caregiving, as well as those who do not. The disadvantage is that the rewards

for caregiving would be directly tied to women's earnings histories. That is, women with high earnings would fare better than the working poor.

